Legislative Audit Division

State of Montana

Report to the Legislature

September 2001   **Limited Scope Performance Audit**

Purchasing Card Program

Eleven State Agencies and the Two University Units

This limited scope performance audit provides information about the state's Purchasing Card Program. We provide information on card use, types of items purchased with cards, purchasing card controls. Overall, our sample of card transactions showed purchases made with purchasing cards were reasonable.
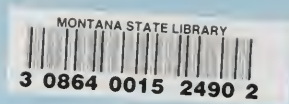
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September 2001

The Legislative Audit Committee
Of the Montana State Legislature:

This is our limited scope performance audit of the state's Purchasing Card Program (ProCard) administered by the Department of Administration, Montana Department of Transportation, The University of Montana, and Montana State University.

The report provides information to the legislature concerning purchasing card use by state and university employees, and purchasing card controls in place at a sample of state agencies and university units. Overall, we found purchases made with ProCards are reasonable.

We wish to express our appreciation to the departments and university units staff for their cooperation and assistance.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Limited Scope Performance Audit

Purchasing Card Program

Eleven State Agencies and the Two University Units

Members of the audit staff involved in this audit were Tom Cooper, Susan Jensen, Joe Murray, Jim Nelson, Kent Rice, Kent Wilcox, Kris Wilkinson, and Mary Zednick.

Table of Contents

List of Figures and Tables

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Introduction

The Legislative Audit Committee requested a limited scope performance audit of the state's Purchasing Card Program (ProCard). The program provides credit cards (a MasterCard) to state employees to use for official state business. The state contracted with GE Capital Financial, Inc. to provide the cards. The program is administered by the Department of Administration (DofA), Montana Department of Transportation (MDT), The University of Montana (UofM), and Montana State University (MSU). We reviewed program controls and card usage at the universities and 11 state agencies.

The objectives of this performance audit were to:
1.   Provide information on statewide ProCard use.
2.   Determine agency controls over ProCard use.

Purpose of Purchasing Cards

In 1996 DofA, MDT, the UofM, and MSU entered into a four-year agreement with GE Capital Financial, Inc. to provide the state of Montana with purchasing cards and software to track transactions. The four entities renewed the contract for one year in 2000 and again in 2001, and there is one more renewal option.

The purchasing card is a tool to manage purchasing and accounting resources by concentrating low-dollar purchases in a less paper-intensive process. The purpose of the card is to make the process for small purchases more efficient.

The card is to be used by state employees only for business-related purchases. Each employee is responsible for the card provided, but card use information is not recorded on the employee's individual credit history.

Software Provided to Track Transactions

As part of the contract, GE Capital provided the state with four copies of the card activity reporting software – Purchasing Accounting Reporting Information System (PARIS). Each of the four state entities party to the contract maintains a copy of the software on the respective agency's computer system. Each copy is referred to as a node. The DofA copy is used by all state agencies

except MDT and the university units. Management of each agency/department determines who can access PARIS and what information on the software each person can access. PARIS records all the transactions by agency/department, the vendor, and, in some cases, what was purchased. PARIS can also generate a number of reports by agency/department, an entire node, or individual cardholder.

Use Limits Placed on Cards

Each administering entity or node established written policies indicating appropriate card use. The policies outline the types of transactions for which the card can and cannot be used. Employees cannot use the card for personal use, cash advances, state-related lodging that exceeds authorized limits, or meals.

Purchasing limits are also placed on the cards. These include single purchase dollar limits ($5,000), daily dollar limits ($25,000), daily transaction limits (25 purchases per day), and monthly dollar ($50,000 total) and transaction (100) limits. GE Capital can change individual card limits when requested by the node's coordinator.

Card Use

Calendar year 1997 was the first full year all the nodes used purchasing cards. That year 402 cards were used. Cardholders made 12,939 transactions totaling $2.1 million from 2,912 vendors. In calendar year 2000, 1,647 cards were used. Cardholders made 70,268 transactions totaling $17.3 million from 14, 994 vendors.

Types of Items Purchased

The types of items purchased with the ProCard range from office supplies to building materials. The vendor with the most dollar sales in calendar year 2000 through October 31, was Dell Computers. The vendor with the most transactions in 2000 through October 31, was Staples for office supplies.

Rebates Based on Card Use

The contract with GE Capital provides rebates to the state based on card use (dollar volume) and timeliness of payments. The state has received the timeliness payment rebate since the program began. In fiscal year 1999-00, the state received a volume discount because total use was greater than $10 million. The amount received for the use rebate increases as total expenditures increase in increments of

$25 million to a maximum of $100 million. The total rebate for fiscal year 1997-98 was $2,963. The total rebate for fiscal year 1999-00 was $24,123.

The rebate is divided among the four administering entities based on percent of expenditures compared to total expenditures with ProCards. The nodes use the rebates to offset program costs.

ProCard Program Growing

In calendar year 1997, state employees were issued 402 cards. By the end of calendar year 2000, the number had increased to 1,647 cards, a 300-percent increase in use. In the six-month period after we selected our sample of cards (September 2000 to March 2001), the number of cards issued on the DofA node alone increased 29 percent (from 485 to 624).

Vendors like state employees to use ProCards because there is less paperwork for them and they are paid faster. Employees like the cards because they can make purchases when needed and do not have to wait for purchase orders to be generated.

Amount Purchased with ProCards Increasing

Some agencies use ProCards on a limited basis and other agencies do not have cards. We sampled seven agencies with cards in fiscal years 1997-98 and 1998-99 to determine if card use is increasing. We found the Departments of Administration and Labor and Industry increased their use of ProCards between the two years by 30 to 40 percent.

ProCard Controls

Controls should be in place to ensure cards are not used for personal use and in accordance with purchasing policies. We determined policies/procedures we thought would constitute a good control system over ProCard use. Policies/procedures selected were based on our previous audits of purchasing procedures and purchasing card policies established by the four entities administering the program. The controls included an adequate system to prevent misuse and enhance management of the usage. The controls that should be in place included:

▶ Receipts are reconciled to monthly statements.

▶ Card administrators conduct follow-up to ensure all receipts are received.

▶ Duties are segregated:
  • The cardholder's supervisor reviews or approves purchases either before or after the purchase.

  • Someone other than the cardholder reconciles transactions to PARIS.

  • There is a separate review and approval of the card administrator's changes made to PARIS.

Desirable Management Controls
▶ Cardholders are required to complete a separate log or form listing purchases made each cycle.

▶ Card limits are based on the person's responsibilities and function in the agency/department.

▶ Policies and procedures are tailored to the specific department/agency.

▶ New cardholders receive training about appropriate card use.

We interviewed each agency's/department's card administrator to determine which of the above controls were established for that agency/department. We then reviewed a random sample of at least ten transactions for each sampled cardholder (or all the transactions if less than ten) to verify the controls established were operating as described. Our sample encompassed 114 of 1,367 cards in 11 state agencies and the 2 university systems. We sampled approximately 8 percent of the cards used and 6 percent of total ProCard expenditures in the agencies/units.

Purchases Reasonable

Based on our testing, we found purchases made with ProCards are reasonable. Controls the card administrator described as established for the agency/unit were generally present. All the entities reconciled purchases to PARIS. We also found that almost all of the transactions we reviewed were supported by receipts.

Since some agencies have weaker purchasing controls there is a higher risk of staff purchasing items for personal use. However, these risks also exist under the "conventional" purchasing system requiring purchase orders and vendor invoices. The advantage with ProCards is that purchasing information is more timely since the transaction is posted to PARIS within hours or days and monthly statements are sent to the agency/department. Purchase orders and vendor invoices might not be sent to the agency/department for over a month.

Some Agencies Could Increase Controls

While some agencies established all or most of the controls, we found other agencies could incorporate more of the controls in their system. Management controls, such as requiring a log/form, card limits based on a person's responsibilities and function, policies and procedures tailored to the specific agency, and formal training, are desirable but not absolutely necessary to control card use. Most of the agencies/departments reviewed did not have all of these controls.

We sent letters to each agency/university unit visited informing them of our findings. We identified controls that could be improved and asked for a response to our letter. Copies of our letters, and the subsequent responses, were placed in the Legislative Audit Division's agency files. The control environment we identified, and changes in procedures made by the agencies, can and are being used by financial compliance auditors to establish the level of control testing and detail of testing needed in conducting biennial audits of each agency.

Chapter I - Introduction

Introduction

The Legislative Audit Committee requested a limited scope performance audit of the state's Purchasing Card Program (ProCard). The program provides credit cards (a MasterCard) to state employees to use for official state business. The state contracted with GE Capital Financial, Inc. to provide the cards. The program is administered by the Department of Administration, Montana Department of Transportation, The University of Montana, and Montana State University. We reviewed program controls and card usage at the universities and 11 state agencies.

Audit Objectives

The objectives of this performance audit were to:

1. Provide information on statewide ProCard use.
2. Determine agency controls over ProCard use.

Audit Scope and Methodology

To gain an understanding of the program we interviewed Department of Administration Procurement and Printing Division staff and The University of Montana Business Office staff. We reviewed purchasing card program information on the Department of Administration's (DofA) website, reviewed the contract with GE Capital, and determined the number of cards issued to state and university employees.

We selected a random sample of cards provided to state agency/university employees. The sample was based on dollar amounts expended from February 22, 2000, through August 21, 2000. The sample identified the agencies/university departments we would visit. Prior to reviewing transactions, we interviewed personnel responsible for administering the ProCards in their agency/department. During the interview we determined:

▸ Controls over ProCard use.

▸ Cardholder training on appropriate use of the card.

▸ Whether cardholders obtain documentation supporting the purchase.

▸ If purchases are limited to business use purposes.

▸ If supervisory approval of purchases is required.

▸ If receipts are reconciled to ProCard statements listing purchases.

▸ If management uses the reports available from the ProCard software.

We sampled 114 of 1,367 cards in 11 state agencies and the 2 university units. We reviewed a random sample of at least ten transactions from each card or all the transactions made with the card during the February through August time period if less than ten. We reviewed the transactions and supporting documentation to evaluate controls as described in the interview and any applicable policies and procedures, and determined the types of items purchased with the ProCard. (Appendix A lists the agencies visited, and the number of ProCards and transaction amounts reviewed at each agency versus total cards and transactions.)

We gathered information from the software provided with the ProCards to determine card use, purchasing trends, and dollar and transaction limits for all cards. Data was gathered for calendar years 1997 through 2000 to show various trends.

Information was obtained from the Statewide Budgeting and Accounting System to evaluate the level of card use compared to conventional purchasing methods such as petty cash, purchase orders, vendor invoices, and charge accounts at specific stores.

We did not review the general and application controls over the ProCard provider's hardware and software.

Data Limitations

During the audit, data limitations prevented us from providing information on card use for all state entities or for fiscal year 1999-00. We intended to provide information regarding the dollar amount of purchases made with cards versus purchases made using conventional purchasing methods (petty cash, charge accounts at

specific stores, purchase orders/vendor invoices, etc.) for fiscal years 1997-98 through 1999-00. Problems arose when we tried to gather information for fiscal year 1999-00. There are no Statewide Accounting, Budgeting and Human Resources System (SABHRS) queries that allowed us to sort expenditure data by vendor type (purchasing card versus specific vendors). We were able to use Statewide Budgeting and Accounting System (SBAS) information for our comparison for fiscal years 1997-98 and 1998-99.

We also wanted to provide detailed information showing the most common items purchased with ProCards. We had two data limitation problems. One was caused by Montana State University's expenditure recording procedures. The university does not record expenditures into lower level objects of expenditures, thus we could not identify the types of items purchased with ProCards from the state accounting system for Montana State University. Agencies are not required to use the lower level objects of expenditures.

The other limitation regarding common items purchased resulted from the equipment vendors use to submit transaction information to GE Capital. The type of equipment vendors use to record purchases limits the information provided to GE Capital regarding items purchased. Some equipment provides details of each item purchased whereas other equipment just provides a total for the entire transaction. Since there were no details for many of the items purchased, we could not identify the most common items purchased with ProCards.

Issues for Further Study

While reviewing purchases made by agencies using their ProCards we noted many purchases were made at office supply stores. Statute and administrative rules require agencies to purchase office supplies through DofA's Central Stores Program. Statute and rules allow agencies to bypass Central Stores if they can buy items at a price less than the Central Stores price and if the specifications, terms, conditions, and delivery meet or exceed the Central Stores Program. A study in this area would determine if agencies are properly

following state laws and rules and if a Central Stores Program is still a viable, cost effective process.

State statute allows DofA to delegate purchasing authority up to $5,000 to individual agencies. DofA enters into two-year contracts with each agency. The contracts include requirements for agencies to maintain written procedures for handling all purchases, and maintain adequate records to document the procurement process. The department does not monitor these contracts to ensure Purchasing Delegation Agreements are followed. A study in this area would determine if agencies follow delegation agreements and if DofA should be conducting routine reviews of compliance with the agreements.

Report Organization

The remainder of this report is divided into two chapters. Chapter II provides information about the Purchasing Card Program, card use, and what is purchased with the card. Chapter III provides information concerning card use controls at the agencies visited.

Introduction

In 1996 the Department of Administration (DofA), the Montana Department of Transportation (MDT), The University of Montana (UofM), and Montana State University (MSU) entered into a four-year agreement with GE Capital Financial, Inc. to provide the state of Montana with purchasing cards and software to track transactions. The four entities renewed the contract for one year in 2000 and again in 2001, and there is one more renewal option. After the renewal option expires, the state will have to issue a Request for Proposal for a purchasing card system.

Purpose of Purchasing Cards

The purchasing card is a tool to manage purchasing and accounting resources by concentrating low-dollar purchases in a less paper-intensive process. The purpose of the card is to make the process for small purchases more efficient. Purchasing cards are designed to:

- Eliminate initial paperwork required for small purchases.

- Enhance the reporting of purchases made.

- Reduce the amount and number of petty cash funds.

- Eliminate multiple warrants to the same vendors.

- Allow vendors to receive their money faster since vendors are paid by the credit card company.

- Allow employees to make emergency purchases so they can obtain what they need immediately and more easily make purchases in the field.

The card (a MasterCard) is to be used by state employees only for business related purchases. Each employee is responsible for the card provided but card use information is not recorded on the employee's individual credit history.

Software Provided to Track Transactions

As part of the contract, GE Capital provided the state with four copies of the card activity reporting software – Purchasing Accounting Reporting Information System (PARIS). Each of the four state entities party to the contract maintains a copy of the software on the respective agency's computer system. Each copy is

referred to as a node. The DofA copy is used by all state agencies except MDT and the university units. The state initially paid $25,000 for the four nodes ($6,250 paid by each state party). Each party also pays GE Capital $300 a month for computer space to store each node's transaction information prior to downloading to the node's computer. Due to the various accounting software systems used by the four entities at the time of initial installation, it was difficult to have all of them use a central computer with one copy of PARIS. According to DofA personnel, the response time would also be reduced if the information was stored on one computer.

Access to Software and Information is Controlled

Management of each agency/department determines who can access PARIS and what information on the software each person can access. For example, the individual designated as an agency/department card administrator can view all transactions and change information as needed to properly record purchases. Other staff in the same agency/department can only review their own transactions and cannot make changes. Card activity is downloaded daily to the DofA, MSU, and the UofM nodes. Information is downloaded twice weekly to the MDT node.

Some Purchasing Details Recorded

PARIS not only records all the transactions by agency/department, but also records the vendor and, in some cases, what was purchased. The detail of the items purchased is dependent on the type of equipment the vendor uses to submit the purchase. Information submitted to PARIS from Level I vendors consists of the date, vendor name, total dollar amount, card number, and cardholder name. Level II vendor information submitted to PARIS is the same as Level I plus tax information. Level III vendors submit information similar to Level I but there is an itemized listing of items purchased. Examples of Level III vendors include chain office supply and discount stores.

Reports can be Generated

PARIS can generate a number of reports by agency/department, an entire node, or individual cardholder. Each report can be generated for specific time periods such as a day, week, month, year, etc.

Reports showing information for an agency/department or the entire node include:

- ► Number of transactions and dollars expended by each cardholder.

- ► Vendors sorted by the number of transactions or dollar amount.

- ► Number of transactions and dollar amount expended in each merchant code category.

- ► Activity summary reports showing the number of transactions, dollar amount expended, number of cards used, top cardholder in volume and dollars, and top vendor in volume and dollars.

Reports by cardholder include:

- ► Cardholder dollar and transaction limits.

- ► Vendor, item purchased (if from a Level III supplier), dollar amount, and fund account number.

- ► Date of each transaction, date the transaction was posted to PARIS, vendor, merchant code category, and total cost.

Process for Obtaining and Using a Card

Each of the four entities administering the ProCard Program designated a purchasing card coordinator. The coordinator functions as a central figure for the entity to receive electronic purchase information, maintain accounting data, and establish/remove cardholder information. The coordinators also assist the agencies/university departments with use of PARIS software and purchase/cardholder problems. The coordinator at the UofM promotes the program to university departments and conducts audits of each department to ensure card use follows university policies.

The following figure describes the basic steps departments follow to establish a program and procedures for employees to obtain ProCards.

Figure 1

Steps to Establish ProCard Program and Distribute Cards

▸ Department decides to use the ProCard Program.

▸ Department management (typically centralized services staff) contacts the node coordinator.

▸ Department told about program and designates someone (usually centralized services staff) as card administrator. The administrator is generally responsible for obtaining applications for credit cards, ensuring cardholders submit receipts for purchases, ensures information in PARIS is correct, and corrects any accounting coding on PARIS or the department's accounting system if the problem was not corrected on PARIS.

▸ Employee supervisor (division administrator, bureau chief, section/unit supervisor, university department head/chair) decides who will be issued a card.

▸ Employee completes an application which includes information regarding what account/fund purchases will be recorded against.

▸ Supervisor approves and signs application.

▸ Node coordinator receives application.

▸ Node coordinator forwards the application to GE Capital.

▸ GE Capital sends a card for the employee to the node coordinator.

▸ Node coordinator gives card to card administrator at the department.

▸ Employee receives the card along with policies regarding card use, and signs an agreement stating the card is to be used for legitimate state business, cannot be used for personal purchases, and the cardholder will reimburse the department for all incurred costs associated with improper use.

▸ Employee calls GE Capital to activate the card.

Source: Created by the Legislative Audit Division from information from node coordinators.

Use Limits Placed on Cards

Each node established basic policies indicating appropriate card use. The policies outline the types of transactions for which the card can and cannot be used. Table 1 shows the transactions not allowed with the ProCard under each node.

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Table 1

Transactions Not Allowed with the ProCard

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✓ Transactions Not Allowed	DofA	MDT	UofM	MSU
Personal use	✓	✓	✓	✓
Cash advances	✓	· ✓	✓	✓
State-related lodging			✓	✓
State-related lodging that exceeds authorized limits	✓	✓	✓	✓
Meals	✓	✓	✓	✓
Health and medical services	✓	✓		
Standard merchant category exclusions[1]	✓	✓	✓	
Entertainment		✓	✓	✓
Contracted services			✓	
Gasoline		✓		✓
Central Stores		✓		
Controlled commodities[2]		✓		
Services		✓		
Plants and flowers				✓
Prescription drugs/controlled substances				✓
Telephones, related expenses				✓
Consulting and/or personal services				✓
Capital equipment or equipment with a trade-in				✓
Alcohol or any substance, material or service which violates policy, law or regulations pertaining to MSU				✓
Any purchase that is prohibited by current University purchasing policies and procedures				✓

[1] Standard merchant code exclusions do not allow the cards to be accepted by specific vendors, such as liquor stores, cigar stores, and time share condos.

[2] Controlled commodities include items purchased on Requisition Time Schedules and term contracts. Items on a Requisition Time Schedule can only be purchased at certain times during the year by the Printing and Procurement Bureau, DofA. Items on a term contract can be purchased by an agency from the vendor(s) with the contract.

Source: **Compiled by the Legislative Audit Division from department/university unit records.**

Purchasing limits are also placed on the cards. These include single purchase dollar limits, daily dollar and transaction limits, and cycle dollar and transaction limits. (A cycle is the 22nd of one month to the 21st of the next month.) The default limits of the cards for all four nodes are:

- $5,000 per purchase,
- $25,000 total purchased per day,
- 25 purchases per day,
- $50,000 total purchased per cycle, and
- 100 transactions per cycle.

GE Capital can change individual card limits or standard merchant code category exclusions when requested by the node's coordinator.

Card Activity Reconciled to PARIS

Once activated, an employee can use the card for business purposes. Card use is recorded on PARIS. At the end of a cycle, GE Capital sends each card administrator statements showing purchasing activity for each card. Figure 2 shows the general process from an employee purchasing items through payment to GE Capital.

Figure 2
<u>Process for Purchasing Items and Paying GE Capital</u>

▸ Employee purchases item with card.

▸ Employee obtains documentation of purchase—receipt, packing invoice, e-mail message if ordered on-line, etc.

▸ At the end of the cycle the card administrator receives a statement from GE Capital listing purchases for each cardholder.

▸ Employee or card administrator compares the receipts to the statement to ensure all the receipts are present and the employee made the purchase.

▸ Card administrator compares the receipts/statement to PARIS to ensure the correct account/funds are debited/credited.

▸ An approver (usually staff in centralized services) reviews and approves any changes the card administrator made to PARIS.

▸ After a specified time period PARIS information updates the state's/university's accounting software.

▸ Monthly, each node coordinator notifies the DofA coordinator of amount owed GE Capital for their node.

▸ Monthly, DofA coordinator pays the entire amount the state owes for card purchases to GE Capital.

Source: Compiled by the Legislative Audit Division from information from node coordinators.

ProCard Programs can be Decentralized

Some state agencies and the university units have decentralized the card program. For example, The University of Montana has a node coordinator in the Business Office and each department using ProCards has a card administrator. Montana State University has one card administrator for each campus. Some state agencies have one card administrator in the centralized services area for the entire agency, while other agencies have card administrators in each division.

Card Use

Calendar year 1997 was the first full year all the nodes used purchasing cards. That year 402 cards were used (86 cards were used in 1996). Cardholders made 12,939 transactions totaling $2.1 million from 2,912 vendors. In calendar year 2000, 1,647 cards were used. Cardholders made 70,268 transactions totaling $17.3 million from 14,994 vendors. The following charts show, for the four nodes, the number of cards used, total transactions, dollars spent, and number of vendors used for calendar years 1997 through 2000.

Figure 3

Purchasing Card Use
(Calendar Years 1997 through 2000)
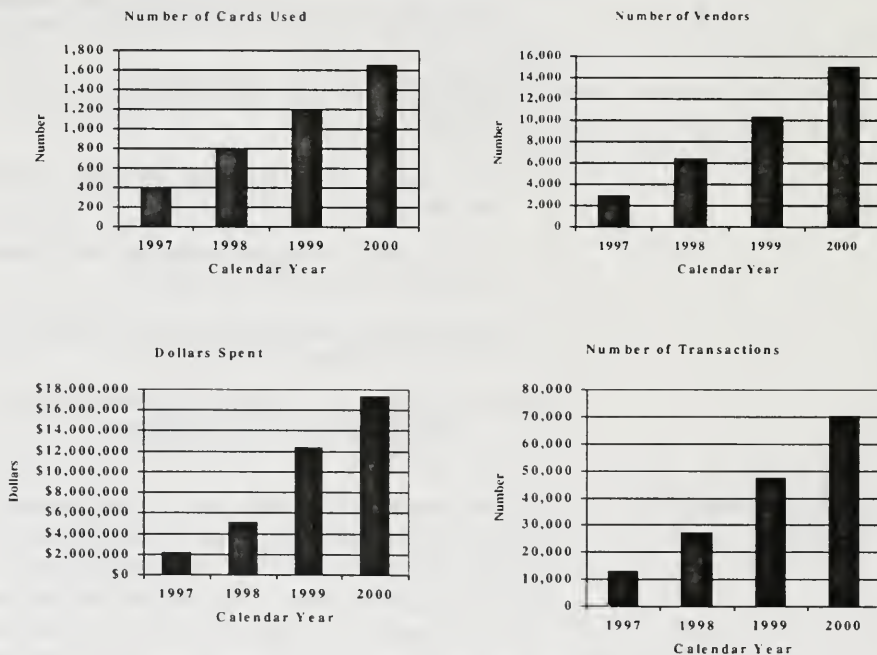
Source: Compiled by the Legislative Audit Division from PARIS reports.

Types of Items Purchased

The types of items purchased with the ProCard range from office supplies to building materials. We obtained the top vendors in terms of transactions and dollars from PARIS reports for the four nodes. The vendor with the most dollar sales in calendar year 2000 through October 31, was Dell Computers. The vendor with the most transactions in 2000 through October 31, was Staples for office supplies. Table 2 shows the top ten vendors for dollars and transactions in calendar year 2000 through October 31.

Table 2

Top 10 Vendors in Calendar Year 2000 Through October 31

Vendor	Amount
Dell Computers	$ 1,402,105
Delta	$ 584,041
Computerland	$ 388,667
MT Property & Supply Bureau	$ 246,835
Northwest Airlines	$ 184,020
Fisher Scientific	$ 100,901
Helena`s Office Outfitters	$ 77,500
Egghead.Com	$ 75,946
Alaska Airlines	$ 70,343
AT & T Campuswide	$ 53,770

Vendor	Transactions
Staples	2,294
Delta	1,152
Commnet Cellular	1,111
MT Property & Supply Bureau	1,035
UofM Center Bookstore	474
Missoula Ace Hardware	360
Paul`s Office Products	349
Ace Hardware	349
Rock Hand Hardware	328
Fisher Scientific	300

Source: Compiled by the Legislative Audit Division from PARIS reports.

In calendar years 1997 through 2000, most items were purchased from vendors that could be categorized as retail/miscellaneous stores. Tables 3 and 4 show the dollar amount of purchases and the number of transactions, respectively, by merchant category for calendar years 1997 through 2000.

Table 3

Dollar Amounts Spent by Merchant Category
(Calendar Years 1997 through 2000)

Category	1997	1998	1999	2000
Retail/Misc. Stores	$ 1,053,477	$ 2,543,267	$ 5,816,539	$ 6,632,204
Transportation/Lodging	$ 196,509	$ 629,052	$ 1,441,272	$ 3,241,163
Business/Repair Services	$ 277,966	$ 468,931	$ 1,615,952	$ 2,026,973
Stationary/Office Supplies	$ 203,865	$ 465,903	$ 937,853	$ 1,292,387
Contractors	$ 80,300	$ 260,730	$ 541,030	$ 797,849
Community Agencies	$ 28,820	$ 108,518	$ 338,590	$ 772,294
Health Services	$ 6,288	$ 71,162	$ 403,993	$ 672,187
Utilities	$ 57,213	$ 119,832	$ 224,128	$ 479,955
Home Furnishings/Services	$ 170,472	$ 193,782	$ 278,177	$ 367,801
Education	$ 15,410	$ 53,855	$ 193,604	$ 324,304
Other	$ 7,824	$ 42,445	$ 229,207	$ 259,063
Food/Beverage	$ 6,141	$ 32,914	$ 93,856	$ 190,664
Recreation Activities	$ 17,197	$ 46,788	$ 180,603	$ 182,488
Clothing	$ 9,121	$ 4,471	$ 27,870	$ 29,996
Cleaning Services	$ 2,513	$ 5,008	$ 11,852	$ 18,428
Financial Institutions/Credit[1]	$ 13,182	$ 13,404	$ 12,546	$ 9,948
Totals	**$ 2,146,298**	**$ 5,060,062**	**$ 12,347,072**	**$ 17,297,704**

[1] Financial Institutions/Credit are transactions to GE Capital Financial and items returned to vendors resulting in a debit to the card.

Source: Compiled by the Legislative Audit Division from PARIS reports.

Table 4

Number of Transactions by Merchant Category
(Calendar Years 1997 through 2000)

Category	1997	1998	1999	2000
Retail/Misc. Stores	5,509	10,571	16,723	21,386
Transportation/Lodging	1,784	4,501	8,338	15,586
Stationary/Office Supplies	1,667	3,302	6,348	8,845
Business/Repair Services	935	1,572	3,126	4,334
Utilities	615	1,981	2,454	3,561
Food/Beverage	239	804	1,673	2,961
Community Agencies	154	561	1,266	2,782
Contractors	473	1,295	2,021	2,585
Health Services	94	370	1,375	2,240
Home Furnishings/Services	939	1,318	1,611	2,193
Education	64	230	676	1,248
Other	50	240	850	1,177
Recreation Activities	109	301	558	821
Financial Institutions/Credit[1]	140	82	176	203
Cleaning Services	45	99	151	182
Clothing	122	39	121	164
Totals	**12,939**	**27,266**	**47,467**	**70,268**

[1] Financial Institutions/Credit are transactions to GE Capital Financial and items
   returned to vendors resulting in a debit to the card.

Source: Compiled by the Legislative Audit Division from PARIS reports.

Rebates Based on Card Use

The contract with GE Capital provides rebates to the state based on card use (dollar volume) and timeliness of payments. The state has received the timeliness of payment rebate since the program began. In fiscal year 1999-00, the state received a volume discount because total use was greater than $10 million. The amount received for the use rebate increases as total expenditures increase in increments of $25 million to a maximum of $100 million.

The rebate is divided among the four administering entities based on percent of expenditures compared to total expenditures with ProCards. The nodes use the rebates to offset program costs. Table 5 shows the total expenditures and rebates for each node for fiscal years 1997-98 through 1999-00.

Table 5

Rebates
(Fiscal Years 1997-98 through 1999-00)

Node	1997-98		1998-99		1999-00	
	Expenditures	Rebate	Expenditures	Rebate	Expenditures	Rebate
UofM	$1,572,588	$1,210	$3,254,011	$1,499	$ 6,797,681	$10.017
DofA	$1,459,073	$1,123	$3,431,887	$1,581	$ 5,355,363	$ 7,892
MSU	$ 373,633	$ 287	$1,798,305	$ 829	$ 3,180,652	$ 4,687
MDT	$ 445,272	$ 343	$ 651,008	$ 300	$ 1,035,985	$ 1,527
Total	$3,850,566	$2,963	$9,135,211	$4,209	$16,369,681	$24,123

Source: Compiled by Legislative Audit Division from Department of Administration records.

Chapter III - Future Utilization and ProCard Controls

Introduction

One of our audit objectives was to evaluate agency controls over ProCard use. Controls should be in place to ensure cards are not used for personal use and in accordance with purchasing policies.

Our review of transactions showed purchasing card expenditures were reasonable. We found purchasing controls at the various agencies/departments visited varied from good to needing improvement. The next sections discuss the increased use of cards and the controls we observed during our review of a sample of cards.

ProCard Program Growing

Calendar year 1997 was the first full year all four nodes were operating. In that year 402 cards were used. By the end of calendar year 2000, the number had increased to 1,647 cards, a 300 percent increase in use. In the six-month period after we selected our sample of cards (September 2000 to March 2001), the number of cards issued on the DofA node alone increased 29 percent (from 485 to 624).

Vendors like state employees to use ProCards because there is less paperwork for them and they are paid faster. Employees like the cards because they can make purchases when they need them and do not need to wait for purchase orders to be generated.

Amount Purchased with ProCards Increasing

Currently, some agencies use ProCards on a limited basis and other agencies do not have cards. To determine how much could be purchased with ProCards, and if ProCard use is increasing, we compared expenditures for specific items purchased with a ProCard versus conventional procurement methods. We sampled seven agencies with cards in fiscal years 1997-98 and 1998-99. We gathered expenditures for items currently purchased with ProCards by all or most of the agencies, such as laptop computers, printing, building materials, office supplies not from DofA's Central Stores Program, minor tools, shop supplies, etc. We did not include travel expenditures or purchases from DofA's Central Stores in our

comparison since not all agencies allow ProCards to be used for these expenses.

Table 6 shows the agencies reviewed, total dollar expenditures for specific items that are potential candidates for ProCard purchases, ProCard expenditures for the same items, and percent of expenditures for those items made with the ProCard for fiscal years 1997-98 and 1998-99. (We could not compare the expenditures in fiscal year 1999-00 because we could not sort expenditure information by purchasing card use on SABHRS.)

Table 6

Comparison of ProCard Usage for Selected Items
(Fiscal Years 1997-98 and 1998-99)

Agency	1997-98			1998-99		
	Total Expenditures for Selected Items	ProCard Expenditures for Selected Items	% ProCard Use	Total Expenditures for Selected Items	ProCard Expenditures for Selected Items	% ProCard Use
DofA	$ 802,173	$ 191,155	24%	$ 770,893	$ 473,477	61%
L&I	$ 769,139	$ 164,565	21%	$ 1,181,925	$ 598,737	51%
Military Affairs	$ 399,385	$ 81,712	20%	$ 348,042	$ 75,716	22%
FWP	$ 2,363,143	$ 144,076	6%	$ 2,571,824	$ 193,336	8%
Transportation	$ 2,597,463	$ 181,833	7%	$ 3,263,942	$ 180,405	6%
Livestock	$ 178,754	$ 5,502	3%	$ 227,647	$ 6,029	3%
Leg Branch	$ 89,046	$ 929	1%	$ 95,490	$ 1,229	1%
Total	$ 7,199,103	$ 769,772	11%	$ 8,459,763	$ 1,528,929	18%

Source: Compiled by the Legislative Audit Division from SBAS.

We found the Departments of Administration and Labor and Industry increased their use of ProCards between the two years by 30 to 40 percent. Both agencies used ProCards for over half of these types of purchases. Assuming more agencies will experience the benefits of ProCard usage listed on page 5, other agencies could substantially increase their use of ProCard.

Control Review Results

We determined policies/procedures we thought would constitute a good control system over ProCard use. Policies/procedures selected were based on our previous audits of purchasing procedures and

purchasing card policies established by the four entities administering the program. The controls included an adequate system to prevent misuse and enhance management of the usage. The controls we thought should be in place included:

Basic Card Use Controls

▶ Receipts are reconciled to monthly statements.

▶ Card administrator conducts follow-up to ensure all receipts are received.

▶ Duties are segregated:

  • The cardholder's supervisor reviews or approves purchases.

  • Someone other than the cardholder reconciles transactions to PARIS.

  • There is a separate review and approval of the card administrator's changes made to PARIS.

Enhanced Management Controls

▶ Cardholders are required to complete a separate log or form listing purchases.

▶ Card limits are based on the person's responsibilities and function in the agency/department.

▶ Policies and procedures are tailored to the specific department/agency.

▶ New cardholders receive training about appropriate card use.

We interviewed each agency's/department's card administrator to determine which of the above controls were established for that agency/department. We then reviewed a random sample of at least ten transactions for each cardholder (or all the transactions if less than ten) to verify the controls established were operating as described. Our sample encompassed 114 of 1,367 cards in 11 state agencies and the 2 university systems. We sampled approximately

8 percent of the cards used and 6 percent of total ProCard expenditures in the agencies/units.

Purchases Reasonable

Based on our testing, we found purchases made with ProCards are reasonable. Controls the card administrator described as established for the agency/unit were generally present. All the entities reconciled purchases to PARIS. We also found that almost all of the transactions we reviewed were supported by receipts. In looking at the items purchased, all appeared reasonable for state business.

Since some agencies have weaker purchasing controls there is a higher risk of staff purchasing items for personal use. However, these risks also exist under the "conventional" purchasing system requiring purchase orders and vendor invoices. The advantage with ProCards is that transaction information is more timely since the transaction is posted to PARIS within hours or days, and monthly statements are sent to the agency/department. Purchase orders and vendor invoices might not be sent to the agency/department for over a month.

**Some Agencies Could
Increase Controls**

While some agencies established all or most of the controls, we found other agencies could incorporate more of the controls in their system. Management controls, such as requiring a log/form, card limits based on a person's responsibilities and function, policies and procedures tailored to the specific agency, and formal training, are desirable but not absolutely necessary to control card use. Most of the agencies/departments reviewed did not have all of these controls.

We sent letters to each agency/university unit visited informing them of our findings. We identified controls that could be improved and asked for a response to our letter. The following sections discuss our findings for each of the controls we reviewed and agency responses.

Basic Card Use Controls

Basic card use controls include reconciliation of receipts to statements and segregation of duties. The following sections discuss our findings for these controls.

Receipts Reconciled to Statements

Reconciling receipts to the ProCard statement and/or PARIS is the primary control ensuring the agency/department is not charged for items the cardholder did not purchase. We found all agencies have this control.

Follow-up for Missing Receipts

A corresponding control to reconciling receipts to statements/PARIS is ensuring the card administrator receives all the receipts. Some agencies require cardholders to give the receipts to the card administrator immediately after the item is purchased or within a few days. The majority of the agencies/departments ask cardholders to submit receipts at the end of the month.

Most card administrators ensured they received receipts. In some cases the administrators have to contact cardholders a number of times to obtain receipts. Some agencies require the cardholder to obtain copies of missing receipts from vendors. Five agencies allowed purchases to be approved on PARIS without documentation verifying the purchase.

Without receipts, controls are weakened, staff supervisors cannot ensure staff are only using the cards for business purposes, and purchases are appropriate. The basic policies established by the four entities administering ProCard programs specify cardholders are to retain receipts. Four of the five agencies without this control agreed it was needed and intended to implement procedures to ensure receipts are turned into card administrators. The fifth agency indicated it did not believe cards were being misused.

Segregation of Duties

Most of the entities reviewed segregated the duties of supervisory approval, reconciling receipts to card statements/PARIS, and approving changes to PARIS. This segregation of duties helps ensure purchases are for business use, the cardholder made the purchase, and any changes to PARIS are appropriate. The agencies that did not segregate duties usually had a cardholder reconciling his/her own purchases to PARIS and there was no separate review of the changes made to PARIS. This procedure could allow a person to

make a purchase for personal use. A compensating control is supervisors reviewing purchases.

Seven entities required a supervisor to review the purchase either before or after it was made. Supervisory reviews in two of the seven entities were not always before the information in PARIS was approved and transferred to the applicable accounting system. Six entities did not require any supervisory review of purchases. Three of the six entities lacked a supervisory review of purchases and had cardholders reconcile their purchases to PARIS. Two agencies did not have any of the three controls in place.

All the agencies without one or more of the segregation controls agreed they needed to implement at least one of the missing controls. The two agencies with none of the controls agreed they needed to implement two controls, one of which is ensuring the card administrator reconciling the transactions to PARIS is not a cardholder.

Enhanced Management Controls

Enhanced management controls includes requiring a log or form to be completed to track ProCard purchases, establishing card limits based on employees functions, developing policies and procedures tailored to the agency/department purchasing practices, and providing formal training regarding appropriate ProCard use. The following sections describe our findings regarding desirable management controls over purchasing cards.

Requiring Logs or Forms

One agency requires each employee with a ProCard to record the purchase on a log. Receipts are to be attached to the log. One other agency leaves it to the discretion of the division administrator if a log is required, and another requires a form when computers are purchased. None of the other entities reviewed require any logs or forms detailing ProCard purchases. Requiring logs or forms is another control that allows supervisors to conduct a quick review of purchases to ensure they are appropriate. Also, receipts can be attached to the log or form thereby ensuring receipts are maintained and submitted to the card administrator.

Five agencies agreed they should have employees complete a log or form. The others partially concurred or did not concur based upon their perceived risk of misuse of the cards and compensating controls.

Card Limits

Only 2 of the 13 entities reviewed requested changes to individual cardholder's default purchasing limits which are $5,000 for a single purchase, and $50,000 for a cycle limit. The two entities requested limits for cardholders in certain positions to be decreased since the limits were more than the people needed for the items they commonly purchase. The purchasing limits in the other 11 entities were the ones established when the contract was signed. Some entities requested increases in purchasing authority for purchasing agents.

Card limits are a means of establishing better management control over card use based on job responsibilities. Six of the 11 agencies are going to review use of card limits. The other agencies do not believe changes are necessary at this time based on the number of cards and potential risk of card misuse.

Customizing Policies and Procedures

We found about half of the agencies/departments reviewed wrote policies and procedures specifically for their operations. These policies and procedures provide more detail regarding card use. The general policies and procedures established by each entity administering the program provide basic ProCard information. Two agency/departments supplemented the basic entity policies with letters. The remaining agencies/departments followed the general policies written for the applicable administering entity.

Only one agency agreed they should create policies specific to their agency. The remaining agencies believed the policies developed by the entity administering the program were adequate for their needs.

Training Cardholders on Card Use

Only three entities provide formal ProCard training. Five entities provide basic information and generally review the administering entity's guidelines when employees receive their cards. The

remaining entities essentially just tell cardholders to read the policies and procedures. Training helps ensure cardholders are aware of their responsibilities for proper card use and agency expectations, such as turning receipts into the card administrator within specified time periods.

Two agencies which have personnel just read the policies did not agree they needed to increase their training due to the limited number and use of cards in the agencies. The other agencies agreed they should increase cardholder training.

Conclusion

The Purchasing Card Program is growing. More people are issued cards, transaction activity is increasing, and more money is spent via the cards. As agencies further implement the program, agency management needs to ensure adequate controls are in place. Agency management needs to assess the risk level of card misuse to determine the level of controls they should implement.

Two instances of possible misuse were brought to our attention since our review. In one department a card was stolen and used for personal items. In the other department a cardholder was potentially using his/her card for a personal purchase. During our review we noted there was no segregation of duties at that department.

Copies of the letters we sent to the agencies recommending improved controls, and the subsequent responses, were placed in the Legislative Audit Division's agency files. The control environment we identified, and changes in procedures made by the agencies, can and are being used by financial compliance auditors to establish the level of control testing and detail of testing needed in conducting biennial audits of each agency.

Agencies Responses

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

JUDY MARTZ, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032
FAX 444-2812

PO BOX 200101
HELENA, MONTANA 59620-0101

September 10, 2001

Scott A. Seacat
Legislative Audit Division
State of Montana
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

We have reviewed your limited scope performance audit on the State Purchasing Card Program. We were confident that the program was being used as intended and we were reassured by your report that found that ProCard purchases were reasonable and for state business use. As a result, we were pleased that no recommendations were necessary.

Thank you for your review. We appreciate the opportunity to work with your staff on these issues.

Sincerely,

BARBARA RANF
Director

Montana Department of Transportation

2701 Prospect Avenue
PO Box 201001
Helena MT 59620 1001

David A. Galt, Director
Judy Martz, Governor

September 12, 2001

SEP 1 7 2001

Mary Zednick
Performance Audit Manager
Room 135, State Capitol
PO Box 201705
Helena, MT 59620-1705

Subject: Performance audit of procurement card program

Dear Mary,

Thank you for sending me copies of your final report on the audit of MDT's
purchasing card program. It was a pleasure to read that there are no recommendations
and my staff's overall purchases are reasonable for business use.

Please convey my thanks to those who conducted the audit and recorded the findings
in this report.

I'm returning the two report copies as requested.

Sincerely,

David A. Galt
Director

enclosures

copies: Jim Currie, Deputy Director
         Monte Brown, Administration Division Administrator

Page 28

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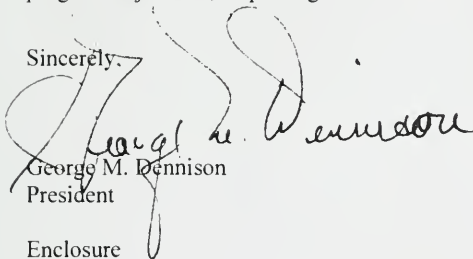
The University of
Montana

12 September 2001

Mr. Scott Seacat
Legislative Auditor
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

The University of Montana received the Limited Scope Performance Audit of the Purchasing Card Program. I thank those involved for their assistance.

I believe you will find University of Montana faculty and staff committed to furthering the program objectives, respecting the controls, and complying with applicable rules and regulations.

Sincerely,

George M. Dennison
President

Enclosure

c: K. Burgmeier, Director, Internal Audit
       R. Crofts, Commissioner of Higher Education

GMD/jw
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Page 29

MONTANA STATE UNIVERSITY

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September 19, 2001

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol, Room 135
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

Please let this letter serve as acknowledgment of Montana State University's receipt of the Legislative Audit Division's Limited Scope Performance Audit Report on the Purchasing Card Program. This productive audit illuminated many concerns shared by your office and the offices of the MSU campuses. Although there were no specific recommendations, we view this report as a tool to strengthen our procedures.

Sincerely,

Geoffrey Gamble
President

Page 30

Appendix A

Comparison of Sample to Total Cards and Expenditures
(February 22, 2000 through August 21, 2000)

Agency	Number of Cards		% of Total	Expenditures		% of Total
	Tested	Total		Tested	Total	
Corrections	1	18	6%	$ 17,899	$ 222,908	8%
Military Affairs	1	43	2%	$ 1,422	$ 264,063	1%
Transportation	8	134	6%	$ 27,528	$ 643,686	4%
Livestock	6	57	11%	$ 3,819	$ 32,552	12%
Fish, Wildlife & Parks	8	39	21%	$ 31,416	$ 231,065	14%
Labor & Industry	16	117	14%	$ 186,892	$ 1,390,274	13%
Administration	9	102	9%	$ 52,987	$ 476,690	11%
Governor's Office	1	7	14%	$ 1,952	$ 19,134	10%
Commerce	4	61	7%	$ 4,385	$ 117,338	4%
Public Health and Human Services	1	10	100%	$ 9,693	$ 17,805	54%
Public Employee Retirement Administration	1	2	50%	$ 5,203	$ 13,118	40%
The University of Montana	41	481	9%	$ 160,139	$ 3,934,566	4%
Montana State University	17	305	6%	$ 23,711	$ 1,701,901	1%
Total	**114**	**1,376**	**8%**	**$ 527,046**	**$ 9,065,100**	**6%**

Source: Compiled by the Legislative Audit Division from PARIS.